



NEWCASTLE MUNICIPALITY
(Registration number KZ252)

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Nature of business and principal activities

The provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development, and to promote a safe and healthy environment.

Mayor

Executive Committee

Cllr Dr NNG Mahlaba

Cllr VV Bam

Cllr EJC Cronje

Cllr RN Mdluli

Cllr RM Molelekoa

Cllr M Shunmugam

Cllr SM Thwala

Cllr SE Shabangu

Cllr TM Nzuzi

Councillors

Cllr LL Bosman

Cllr MV Buhali

Cllr SB Buthelezi

Cllr TJC Danisa

Cllr XMN Dladla

Cllr BS Blamini

Cllr TN Dlamini

Cllr DX Dube

Cllr NP Dukashe

Cllr FP Gama

Cllr VF Hadebe

Cllr A Khoza

Cllr BV Khumalo

Cllr PJ Khumalo

Cllr VD Kubheka

Cllr C Liu

Cllr NK Majozi

Cllr FA Malinga

Cllr AP Meiring

Cllr SG Miya

Cllr HN Mkhwanazi

Cllr TP Mkhwanazi

Cllr MS Mlangeni

Cllr SW Mngomezulu

Cllr NG Mnguni

Cllr AS Mokoena

Cllr MV Molefe

Cllr XM Msezane

Cllr MV Mthembu

Cllr PB Mwali

Cllr VP Mzima

Cllr TM Ndaba

Cllr RB Ndimi

Cllr SS Ndlangamandla

Cllr MS Ndlovu

Cllr PF Ndlovu

Cllr ME Ngcobo

Cllr BC Ngema

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Cllr DR Ngema
Cllr D Ngwenya
Cllr CL Nhlapho
Cllr SJ Nhlapho
Cllr JB Mkhwanazi
Cllr DM Sibilwane
Cllr LT Sikhosana
Cllr JS Sithole
Cllr GMB Thwala
Cllr LG Thwala
Cllr Dr JA Vorster
Cllr SA Yende
Cllr MF Zikhali
Cllr VG Zondo
Cllr NS Zulu
Cllr SJ Zulu
Cllr SZ Zulu
Cllr TM Zulu
Cllr NA Zwane

Grading of local authority

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Accounting Officer

Mr. MJ Mayisela (Acting)

Chief Finance Officer (CFO)

Mr. SM Nkosi

Registered office

37 Murchison Street
Newcastle
2940

Business address

37 Murchison Street
Newcastle
2940

Postal address

Private Bag X 6621
Newcastle
2940

Bankers

Nedbank

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.


The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Newcastle Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2020 and were signed on its behalf by:


Accounting Officer
Designation

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	10	13 514 303	14 040 157
Other financial assets	8	277	1 646
Receivables from exchange transactions	11	76 970 991	81 446 069
Receivables from non-exchange transactions	12	15 480 338	14 335 398
Consumer debtors from exchange transactions	13	457 527 377	487 534 817
Consumer debtors from non-exchange	13	117 395 734	103 098 282
Cash and cash equivalents	14	36 268 498	9 999 201
		717 157 518	710 455 570
Non-Current Assets			
Investment property	3	256 890 618	257 550 618
Property, plant and equipment	4	6 587 528 535	6 810 366 667
Intangible assets	5	2 224 607	3 001 186
Heritage assets	6	11 670 232	11 488 232
Investments in associates	7	217 333 222	245 306 033
		7 075 647 214	7 327 712 736
Total Assets		7 792 804 732	8 038 168 306
Liabilities			
Current Liabilities			
Other financial liabilities	17	11 747 226	25 598 172
Finance lease obligation	15	392 517	852 924
Payables from exchange transactions	20	827 413 480	727 358 251
VAT payable	21	7 961 686	9 783 001
Consumer deposits	22	24 939 318	23 497 275
Unspent conditional grants and receipts	16	45 749 330	33 439 273
Defined benefit plan	18	9 752 000	8 667 735
		927 955 557	829 196 631
Non-Current Liabilities			
Other financial liabilities	17	388 901 682	400 805 603
Finance lease obligation	15	135 823	392 517
Defined benefit plan	18	150 357 002	148 355 252
Provision for rehabilitation of landfill site	19	52 106 817	28 843 889
		591 501 324	578 397 261
Total Liabilities		1 519 456 881	1 407 593 892
Net Assets		6 273 347 851	6 630 574 414
Reserves			
Housing Development fund		28 807 982	28 021 720
Self insurance reserve		532 983	497 014
Accumulated surplus		6 244 006 884	6 602 055 680
Total Net Assets		6 273 347 849	6 630 574 414

* See Note 47

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	24	948 732 868	996 977 844
Rental of facilities and equipment	25	7 794 524	11 789 886
Other Revenue	27	10 113 462	12 657 242
Interest received	28	8 517 417	12 907 083
Total revenue from exchange transactions		975 158 071	1 034 332 055
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	29	319 656 446	287 110 172
Transfer revenue			
Government grants & subsidies	30	560 539 037	509 802 892
Public contributions and donations	31	15 589 293	-
Fines, Penalties and Forfeits	26	10 506 938	8 840 500
Total revenue from non-exchange transactions		906 291 714	805 753 564
Total revenue	23	1 881 449 785	1 840 085 619
Expenditure			
Employee costs	32	553 909 140	567 840 894
Remuneration of councillors	33	25 935 889	24 481 651
Depreciation and amortisation	34	345 298 647	373 173 572
Finance costs	36	70 302 231	79 777 180
Debt Impairment	37	315 021 521	179 747 429
Collection costs		1 285 179	778 122
Bulk purchases	38	515 427 307	521 388 272
Contracted services	39	148 377 188	119 003 189
General Expenses	40	226 201 917	266 338 732
Total expenditure		2 201 759 019	2 132 529 041
Operating deficit		(320 309 234)	(292 443 422)
Share of deficit in investment in associates		(27 972 811)	(35 071 678)
Actuarial gains/losses	9	9 608 477	10 765 537
Fair value adjustments to investment property	41	-	15 370 000
Impairment loss	35	(22 841 959)	(16 205 077)
Profit/(Loss) on Sale of Assets		5 552 913	3 382 489
		(35 653 380)	(21 758 729)
Deficit for the year		(355 962 614)	(314 202 151)

* See Note 47

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

	Housing Development Fund	Self Insurance Reserve	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2018	26 076 953	472 159	26 549 112	6 971 119 275	6 997 668 387
Changes in net assets					
Deficit for the year	-	-	-	(314 202 151)	(314 202 151)
Transfer to Housing Development Fund	1 944 767	-	1 944 767	(1 944 767)	-
Transfer from Self Insurance Reserves	-	24 855	24 855	(24 855)	-
Prior year error- Assets	-	-	-	(72 025 028)	(72 025 028)
Prior Year Error - Investment in Associate	-	-	-	10 378 182	10 378 182
Prior Year Error - Leave	-	-	-	8 689 516	8 689 516
Transfer to Accumulated Surplus	-	-	-	65 508	65 508
Total changes	1 944 767	24 855	1 969 622	(369 063 595)	(367 093 973)
Restated* Balance at 01 July 2019	28 021 720	497 014	28 518 734	6 602 055 680	6 630 574 414
Deficit for the year	-	-	-	(355 962 614)	(355 962 614)
Transfer of capital surplus to trust capital	786 262	-	786 262	(786 262)	-
Transfer to Equity	-	35 969	35 969	(35 969)	-
Transfer to Accumulated Surplus	-	-	-	(1 263 951)	(1 263 951)
Total changes	786 262	35 969	822 231	(358 048 796)	(357 226 565)
Balance at 30 June 2020	28 807 982	532 983	29 340 965	6 244 006 884	6 273 347 849

* See Note 47

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		1 130 641 544	1 095 714 453
Grants		560 539 037	529 560 695
Interest income		8 517 417	12 907 083
		<u>1 699 697 998</u>	<u>1 638 182 231</u>
Payments			
Employee costs and Councillors remuneration		(579 845 029)	(592 322 545)
Suppliers		(900 434 358)	(872 419 844)
Finance costs		(70 302 231)	(79 777 180)
		<u>(1 550 581 618)</u>	<u>(1 544 519 569)</u>
Net cash flows from operating activities	43	<u>149 116 380</u>	<u>93 662 662</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(117 053 532)	(146 656 618)
Proceeds from sale of property, plant and equipment	4	-	4 426 740
Proceeds from sale of Investment property	3	6 721 994	5 374 381
Purchase of other intangible assets	5	(172 929)	(120 650)
Purchases of Heritage Assets	6	(182 000)	(4 019 723)
Net cash flows from investing activities		<u>(110 686 467)</u>	<u>(140 995 870)</u>
Cash flows from financing activities			
Net movements in long term loans		(11 903 921)	(5 650 833)
Movement in Consumer Deposits		-	4 530 750
Movement on finance lease		(256 694)	987 621
Net cash flows from financing activities		<u>(12 160 615)</u>	<u>(132 462)</u>
Net increase/(decrease) in cash and cash equivalents		26 269 298	(47 465 670)
Cash and cash equivalents at the beginning of the year		9 999 201	57 464 871
Cash and cash equivalents at the end of the year	14	<u>36 268 499</u>	<u>9 999 201</u>

* See Note 47

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 193 398 155	(236 756 642)	956 641 513	948 732 668	(7 908 845)	Refer to Appendix
Rental of facilities and equipment	8 647 050	(556 496)	8 090 554	7 794 524	(296 030)	
Other Revenue	33 485 256	(14 600 256)	18 885 000	10 113 462	(8 771 538)	
Interest Received	13 820 790	(5 441 631)	8 379 159	8 517 417	138 258	
Total revenue from exchange transactions	1 249 351 251	(257 355 025)	991 996 226	975 158 071	(16 838 155)	
Revenue from non-exchange transactions						
Property rates	313 498 508	1 377 723	314 876 231	319 656 446	4 780 215	
Transfer revenue						
Government grants & subsidies	604 866 000	120 026 878	724 892 878	560 539 037	(164 353 841)	
Public contributions and donations	-	-	-	15 589 293	15 589 293	
Fines, Penalties and Forfeits	8 197 623	4 292 284	12 489 907	10 506 938	(1 982 969)	
Total revenue from non-exchange transactions	926 562 131	125 696 885	1 052 259 016	906 291 714	(145 967 302)	
Total revenue	2 175 913 382	(131 658 140)	2 044 255 242	1 881 449 785	(162 805 457)	
Expenditure						
Employee costs	(590 700 399)	15 760 076	(574 940 323)	(553 909 140)	21 031 183	
Remuneration of councillors	(26 844 940)	-	(26 844 940)	(25 935 889)	909 051	
Depreciation and amortisation	(491 981 910)	96 751 829	(395 230 081)	(345 298 647)	49 931 434	
Finance costs	(52 041 823)	(10 200 000)	(62 241 823)	(70 302 231)	(8 060 408)	
Debt Impairment	(174 245 110)	(15 685 848)	(189 930 958)	(315 021 521)	(125 090 563)	
Collection costs	(1 000 000)	-	(1 000 000)	(1 285 179)	(285 179)	
Bulk purchases	(684 074 110)	133 587 942	(550 486 168)	(515 427 307)	35 058 861	
Contracted Services	(110 042 278)	(168 470 570)	(278 512 848)	(148 377 188)	130 135 660	
Other expenditures	(273 777 077)	(10 111 438)	(283 888 515)	(226 201 917)	57 686 598	
Total expenditure	(2 404 707 647)	41 631 991	(2 363 075 656)	(2 201 759 019)	161 316 637	
Operating deficit	(228 794 265)	(90 026 149)	(318 820 414)	(320 309 234)	(1 488 820)	
Transfers Recognised Capital	-	-	-	(27 972 811)	(27 972 811)	
Actuarial gains/losses	-	-	-	9 608 477	9 608 477	
Profit/(Loss) on sale of assets	-	-	-	5 552 913	5 552 913	
Impairment Loss	-	-	-	(22 841 959)	(22 841 959)	
	-	-	-	(35 653 380)	(35 653 380)	
Deficit before taxation	(228 794 265)	(90 026 149)	(318 820 414)	(355 962 614)	(37 142 200)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(228 794 265)	(90 026 149)	(318 820 414)	(355 962 614)	(37 142 200)	

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	13 756 000	-	13 756 000	13 514 303	(241 697)	
Other financial assets	2 000	-	2 000	277	(1 723)	
Receivables from exchange transactions	35 084 000	-	35 084 000	76 970 991	41 886 991	
Receivables from non-exchange transactions	-	-	-	15 480 338	15 480 338	
Consumer debtors	463 909 000	(126 000 000)	337 909 000	574 923 058	237 014 058	
Cash and cash equivalents	8 389 000	20 365 000	28 754 000	36 268 498	7 514 498	
	521 140 000	(105 635 000)	415 505 000	717 157 465	301 652 465	
Non-Current Assets						
Investment property	379 606 000	(28 826 000)	350 780 000	256 890 618	(93 889 382)	
Property, plant and equipment	6 580 590 000	(9 212 000)	6 571 378 000	6 587 528 535	16 150 535	
Intangible assets	3 773 000	(2 037 000)	1 736 000	2 224 606	488 606	
Heritage assets	7 726 000	3 762 000	11 488 000	11 670 232	182 232	
Investments in associates	262 171 000	(47 243 000)	214 928 000	217 333 222	2 405 222	
	7 233 866 000	(83 556 000)	7 150 310 000	7 075 647 213	(74 662 787)	
Total Assets	7 755 006 000	(189 191 000)	7 565 815 000	7 792 804 678	226 989 678	
Liabilities						
Current Liabilities						
Other financial liabilities	25 598 000	-	25 598 000	11 747 226	(13 850 774)	
Finance lease obligation	-	-	-	392 517	392 517	
Payables from exchange transactions	383 584 000	(15 611 000)	367 973 000	827 413 480	459 440 480	
VAT payable	-	-	-	7 961 686	7 961 686	
Consumer deposits	22 883 000	2 582 000	25 465 000	24 939 318	(525 682)	
Unspent conditional grants and receipts	-	-	-	45 749 330	45 749 330	
Defined benefit plan	39 290 000	(29 769 000)	9 521 000	9 752 000	231 000	
	471 355 000	(42 798 000)	428 557 000	927 955 557	499 398 557	
Non-Current Liabilities						
Other financial liabilities	348 739 000	313 167 000	661 906 000	388 901 682	(273 004 318)	
Finance lease obligation	-	-	-	135 823	135 823	
Defined benefit plan	145 207 000	32 385 000	177 592 000	150 357 002	(27 234 998)	
Provision for rehabilitation of landfill site	-	-	-	52 106 817	52 106 817	
	493 946 000	345 552 000	839 498 000	591 501 324	(247 996 676)	
Total Liabilities	965 301 000	302 754 000	1 268 055 000	1 519 456 881	251 401 881	
Net Assets	6 789 705 000	(491 945 000)	6 297 760 000	6 273 347 797	(24 412 203)	

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Housing Development Fund	5 000 000	10 000 000	15 000 000	28 807 982	13 807 982	
Insurance reserve	440 000	315 000	755 000	532 141	(222 017)	
Accumulated surplus	(401 983 268)	(80 063 624)	(482 046 892)	6 244 006 892	6 726 053 784	
Total Net Assets	(396 543 268)	(69 748 624)	(466 291 892)	6 273 347 857	6 739 639 749	

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods	1 350 974 000	(187 704 000)	1 163 270 000	1 130 641 544	(32 628 456)	
Grants	604 907 000	91 392 000	696 299 000	560 539 037	(135 759 963)	
Interest received	8 931 000	(4 465 000)	4 466 000	517 417	4 051 417	
	1 964 812 000	(100 777 000)	1 864 035 000	1 699 177 998	(164 337 002)	
Payments						
Employee costs and payments to suppliers	(1 764 617 000)	78 772 000	(1 685 845 000)	(1 480 279 387)	205 565 613	
Finance costs	(45 042 000)	-	(45 042 000)	(70 302 231)	(25 260 231)	
	(1 809 659 000)	78 772 000	(1 730 887 000)	(1 550 581 618)	180 305 382	
Net cash flows from operating activities	155 153 000	(22 005 000)	133 148 000	149 116 380	15 968 380	
Cash flows from investing activities						
Purchase of property, plant and equipment	(207 119 000)	22 250 000	(184 869 000)	(117 053 532)	67 815 468	0
Proceeds from sale of property, plant and equipment	2 332 000	-	2 332 000	-	(2 332 000)	
Proceeds from sale of investment property	-	-	-	6 721 994	6 721 994	
Purchase of other intangible assets	-	-	-	(172 929)	(172 929)	
Purchases of heritage assets	-	-	-	(182 000)	(182 000)	
Decrease(Increase) in non-current debtors	66 420 000	(36 420 000)	30 000 000	-	(30 000 000)	
Decrease (Increase) other non-current receivables	31 068 000	-	31 068 000	-	(31 068 000)	
Net cash flows from investing activities	(107 299 000)	(14 170 000)	(121 469 000)	(110 686 467)	10 782 533	
Cash flows from financing activities						
Movement in long term loans	(25 598 000)	-	(25 598 000)	(11 903 921)	13 694 079	
Movement in finance leases	-	-	-	(256 694)	(256 694)	
Consumer deposits	356 000	5 026 000	5 382 000	-	(5 382 000)	
Net cash flows from financing activities	(25 242 000)	5 026 000	(20 216 000)	(12 160 615)	(256 694)	
Net increase/(decrease) in cash and cash equivalents	22 612 000	(31 149 000)	(8 537 000)	26 269 298	18 494 219	
Cash and cash equivalents at the beginning of the year	9 802 000	197 000	10 000 000	9 999 201	201	
Cash and cash equivalents at the end of the year	32 414 000	(30 952 000)	1 462 000	26 268 499	18 694 420	

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Information

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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BUDGET INFORMATION DISCLOSURE NOTE

There has been prepared on accrual basis of accounting in accordance with the prescripts of the Municipal Budget and Reporting Regulations as well as the MFMA Budget Circulars. In accordance with the Municipal Budget regulations, the classification through which the municipality presents its budget is per the economic as well as the functional classification (per Vote and Standard Classification). It should be noted that minor budget differences between the basis that the budget is prepared is and the actual financial results exists, mainly related to technical GRAP adjustments required. These differences are not material and as the basis of preparation is the same (accrual basis), no restatements have been made to the financial information compared to the budget amount, but where found to be material it is explained in Annexure.

Explanation for the variances between the approved and the final budget are mainly due to reallocations made within the approved budget parameters allowed by the Virement Policy of Newcastle Municipality and the Adjustments Budgets as approved by Council.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s31 of the MFMA)	Final adjustments and budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2020											
Financial Performance											
Property rates	313 498 508	1 377 723	314 876 231	-	-	314 876 231	319 656 446		4 780 215	102 %	102 %
Service charges	1 193 155	(236 756 642)	956 641 513	-	-	956 641 513	948 732 668		(7 908 845)	99 %	79 %
Investment revenue	4 040 869	(1 685 244)	2 355 625	-	-	2 355 625	2 763 437		407 812	117 %	68 %
Transfers recognised - operational	431 677 000	170 620 352	602 297 352	-	-	602 297 352	394 399 846		(207 897 506)	65 %	91 %
Other own revenue	60 109 850	(14 620 855)	45 488 995	-	-	45 488 995	34 168 904		(11 320 091)	75 %	57 %
Total revenue (excluding capital transfers and contributions)	1 002 724 382	(81 064 666)	921 659 716	-	-	921 659 716	699 721 301		(221 938 415)	88 %	85 %
Employee costs	(590 700 399)	15 720 922	(574 979 477)	-	-	(574 979 477)	(553 909 140)		21 070 337	97 %	94 %
Remuneration of councillors	(26 844 940)	-	(26 844 940)	-	-	(26 844 940)	(25 935 889)		909 051	97 %	97 %
Debt impairment	(174 245 110)	(15 685 848)	(189 930 958)	-	-	(189 930 958)	(315 021 521)		(125 090 563)	166 %	181 %
Depreciation and asset impairment	(491 981 910)	96 751 829	(395 230 081)	-	-	(395 230 081)	(368 140 606)		27 089 475	93 %	75 %
Finance charges	(45 041 823)	-	(45 041 823)	-	-	(45 041 823)	(70 302 231)		(25 260 408)	156 %	156 %
Materials and bulk purchases	(684 074 110)	133 507 943	(550 566 167)	-	-	(550 566 167)	(515 427 307)		138 860	94 %	75 %
Other expenditure	(391 819 278)	(170 920 570)	(562 739 848)	-	-	(562 739 848)	(375 284)		186 875 564	67 %	96 %
Total expenditure	(2 404 707 570)	59 276	(2 345 333 294)	-	-	(2 345 333 294)	(600 978)		120 732 316	95 %	93 %
Surplus/(Deficit)	(401 983 188)	(21 690 390)	(423 673 578)	-	-	(423 673 578)	(524 879 677)		(101 206 099)	124 %	131 %

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	14 000 000	10 000 000	24 000 000	-	-	24 000 000	166 139 191		142 139 191	692 %	1 187 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	15 589 293		15 589 293	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	(387 983 188)	(11 690 390)	(399 673 578)	-	-	(399 673 578)	(343 151 193)		56 522 385	86 %	88 %
Share of surplus (deficit) of associate	-	-	-	-	-	-	27 972 811		27 972 811	DIV/0 %	DIV/0 %
Actuarial gains/losses	-	-	-	-	-	-	(9 608 477)		(9 608 477)	DIV/0 %	DIV/0 %
Profit/ Loss on sale of assets	-	-	-	-	-	-	(5 552 913)		(5 552 913)	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	(387 983 188)	(11 690 390)	(399 673 578)	-	-	(399 673 578)	(355 614 614)		710 964	89 %	92 %

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	155 153 000	(20 397 000)	134 756 000	-	-	134 756 000	149 116 380		14 360 380	111 %	96 %
Net cash from (used) investing	(107 299 000)	14 202 000	(93 097 000)	-	-	(93 097 000)	(110 686 467)		(17 589 467)	119 %	103 %
Net cash from (used) financing	(25 242 000)	1 644 000	(23 598 000)	-	-	(23 598 000)	(12 160 615)		11 437 385	52 %	4 %
increase/(decrease) in cash and cash equivalents	22 612 000	(4 551 000)	18 061 000	-	-	18 061 000	269 298		8 208 298	145 %	116 %
Cash and cash equivalents at the beginning of the year	9 802 000	197 000	9 999 000	-	-	9 999 000	9 201		201	100 %	102 %
Cash and cash equivalents at year end	32 414 000	(4 551 000)	28 060 000	-	-	28 060 000	36 268 499		18 208 499	129 %	112 %

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of investment property (other than investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature or type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value at date of acquisition.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.4 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Property, plant and equipment is depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised. The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of an asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.4 Property, plant and equipment (continued)

Buildings	Straight line	30 years
Plant and machinery	Straight line	5 years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	5 years
IT equipment	Straight line	5 years
Computer software	Straight line	■ years
Infrastructure	Straight line	7-80 years
Community	Straight line	5-80 Years
Other property, plant and equipment	Straight line	5-10 Years
Landfill site	Straight line	5 years
Heritage	Straight line	Infinite

The depreciable amount of an asset is allocated on ■ systematic basis over its useful life.

Each part of an item of property, plant and equipment with ■ cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been ■ significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such ■ change is accounted for as ■ change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets ■■ available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to ■■ 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or ■■ ■ consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Accounting Policies

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is ■■■ indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating ■■■ recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, ■■■ that:
 - ■■■ decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses ■■■ revaluation deficit on the asset that ■■■ previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus ■■■ deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that ■■■ decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is ■■■ indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from ■■■ which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If ■■■ revaluation is necessary, all assets of that class ■■■ revalued.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights ■■■ transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes ■■■ arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality ■■■ the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition ■■■ measured at its fair value ■■■ at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset ■■■ that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.6 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.7 Heritage assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset ■ the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in ■■ of a non-cash-generating asset ■ the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset ■ an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition ■ an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as ■ result of a revaluation, the increase is credited directly to ■ revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the ■■■ heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of ■ revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential ■■■ expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

The municipality assess at each reporting date whether there is ■■ indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.8 Investments in associates

An associate is an entity in which the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decision of the investee, but is not control over those policies. The municipality exercise judgment in the context of all available information to determine if it has significant influence over an investee.

The municipality commences accounting for an investment in an associate from the date significant influence exist and discontinues the application of the equity method when it no longer has significant influence over an associate. Investment that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures of financial instruments depending on the nature of the retained investment.

The municipality accounts for the investment in associate under the equity method in the financial statements. The equity method involves recognising the investment in associate initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statement of Financial Performance presents the investors share of the associates surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associates in applying the equity method.

1.9 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.9 Financial instruments (continued)

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for ■ loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by ■ entity in the event of difficulty in meeting obligations associated with financial liabilities that ■ settled by delivering cash or another financial asset.

Loan commitment is ■ firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk ■ the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when ■ counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests ■ interest in the assets of an entity after deducting all of ■ liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of ■ (or ■ class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of ■ entity.

Transaction costs are incremental costs that ■ directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have ■ quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

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Accounting Policies

1.9 Financial Instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessional loan is in fact a loan. On initial recognition, the entity analyses a concessional loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessional loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognises the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.9 Financial instruments (continued)

The difference between the carrying amount of ■ financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction ■■ accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to ■ financial instrument or a component that is ■ financial liability is recognised as ■■■■■ or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is ■ financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests ■■ accounted for ■■ a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of ■ financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified ■■ a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When ■ lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised ■■ assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

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Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of the asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality **assesses** at each reporting date whether there **is** any indication that an impairment loss recognised in prior periods for **a** cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been **a** change in the estimates used to determine the asset's recoverable amount since the last impairment loss **was** recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of **an** impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of **an** impairment loss of **a** revalued cash-generating asset is treated as **a** revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to **a** cash-generating unit.

In allocating a reversal of **an** impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating **a** commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets **are** assets other than cash-generating assets.

Impairment is **a** loss in the future economic benefits or service potential of an asset, **other** and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount **at** which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Useful life is either:

- the period of time over which ■ asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, ■ as follows:

[Specify judgements made]

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than ■ carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is ■ impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is ■ requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.15 Employee benefits

Employee benefits ■ all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under ■ defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that ■ not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable ■ a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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Accounting Policies

1.15 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or ■ sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits ■■ employee benefits (other than termination benefits) that ■■ due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such ■■

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, ■ reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the ■■■ of non-accumulating absences, when the absence occurs. The entity ■■■■ the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has ■ present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits ■■■ employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than ■■■■ plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that ■■ not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above are recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

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Accounting Policies

1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of ■ asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on ■ defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known ■ the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service ■ giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of ■ defined benefit plan when the curtailment or settlement occurs. The gain or loss on ■ curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to ■■ a defined benefit obligation, the right to reimbursement ■ recognised as ■ separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to ■■ plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on ■ net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.15 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the event of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when ■■ entity:

- has ■ detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises ■ a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities ■■ not recognised. Contingencies are disclosed in note 45.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because ■ specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is ■ firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises ■ provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that ■■ outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where ■ fee is charged and the municipality considers that an outflow of economic resources ■■ probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the amount is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as finance cost as it occurs.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Accounting Policies

1.18 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.22 Self Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.23 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.24 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA follows:

Irregular expenditure, in relation to a municipality or municipal entity, means -

- (a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of Section 170;
- (b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No 20 of 1998); or

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.27 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to ■ Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal ■■■■ subject to the approval of the Provincial MEC responsible for housing.

1.28 Internal reserves

Self-insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (adapt to specific circumstances). The balance of the Self-Insurance Reserve ■ determined based on 5% of the insurance risk carried by the municipality (state basis of determining balance of self-insurance reserve) and past claims history in terms of a Council Resolution XX and is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

The municipality operates ■ self-insurance scheme under the Self-Insurance Reserve, which has a policy that is aligned with the practice in the Insurance Industry. The balance of the Self-Insurance Reserve ■ determined based on surpluses accumulated since inception.

These surpluses arise from the differences between premiums charged against claims paid and various administrative expenditure incurred.

At the end of each financial year the surplus ■ computed per above is transferred from accumulated surplus to Self-Insurance Reserve.

Premiums are calculated on past claims experienced and are charged to the various Clusters.

The balance of the self-insurance fund is fully cash backed and is invested in fixed and negotiable deposits.

1.29 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction ■ a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, ■ be influenced by, that management in their dealings with the municipality.

Newcastle Municipality

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Accounting Policies

1.29 Related parties (continued)

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.30 Events after reporting date

Events after reporting date ■■■ those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events ■■■ be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that ■■■ indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date ■■■ the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

2020

2019

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
▪ Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	
▪ Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	
▪ GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	
▪ GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	
▪ GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	
▪ GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	
▪ GRAP 20: Related parties	01 April 2019	
▪ GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	
▪ GRAP 105: Transfers of functions between entities under common control	01 April 2019	
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	
▪ GRAP 107: Mergers	01 April 2019	
▪ GRAP 108: Statutory Receivables	01 April 2019	
▪ GRAP 109: Accounting by Principals and Agents	01 April 2019	
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	
• IGRAP 17: Service Concession Arrangements where ■ Grantor Controls ■ Significant Residual Interest in an Asset	01 April 2019	
• IGRAP 18: Interpretation of the Standard of GRAP ■ Recognition and Derecognition of Land	01 April 2019	
▪ IGRAP 19: Liabilities to Pay Levies	01 April 2019	

Newcastle Municipality

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Notes to the Annual Financial Statements

3. Investment property

	2020		2019			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	256 890 618	-	256 890 618	257 550 618	-	257 550 618

Reconciliation of investment property - 2020

	Opening balance	Disposals	Total
Investment property	257 550 619	(660 000)	256 890 619

Reconciliation of investment property - 2019

	Opening balance	Disposals	Reallocation	Fair value adjustments	Correction of error	Total
Investment property	440 818 000	(5 374 381)	(95 000 000)	15 370 000	(98 263 000)	257 550 619

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

4. Property, plant and equipment

	2020		2019	
	Cost / Valuation	Accumulated depreciation and impairment	Cost / Valuation	Accumulated depreciation and impairment
Land	158 734 543	-	158 734 543	-
Buildings	420 440 495	(58 278 549)	421 654 495	(44 456 426)
Infrastructure	9 396 521 994	(3 556 447 857)	5 840 074 137	(3 240 945 595)
Community	230 819 841	(50 359 675)	180 460	(43 301 748)
Leased Assets	3 632 660	(3 184 028)	448 632	(2 311 383)
Other Assets	200 669 701	(155 020 590)	45 111	(139 524 059)
Total	10 410 819 234	(3 290 699)	10 280 905 878	(3 470 539 211)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Additions - WIP	Revaluations	Disposals	Work In Progress Movement	Impairment	Depreciation	Total
Land	158 734 543	-	-	-	(155 000)	-	-	-	158 734 543
Buildings	377 198 069	-	-	-	(353 124)	364 930	(27 452)	(14 655 547)	362 526 876
Infrastructure	6 018 074 272	108 004	662 021	-	-	-	(7 889 325)	(9 681 394)	6 001 273 578
Community	199 736 742	11 410 907	413 134	19 494 107	-	-	(6 531 638)	(303 728 952)	18 794 300
Other assets	342 253	5 503	-	-	-	-	(80 548)	(15 410 600)	45 750
Leased Assets	1 125 788	195 489	-	-	-	-	-	(872 645)	448 632
Total	6 810 366 667	17 211 401	99 011 155	19 494 107	(508 124)	364 930	(14 528 963)	(344 349 138)	6 810 366 667

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	WIP	Disposals	Write-offs	Revaluations	Re-allocations	Change in estimates	Depreciation	Impairment loss	Exclusion (VAT and Retentions)
Land	48 249 648	-	367 043	(1 451 000)	-	(5 071 037)	95 000 000	5 446 566	(75 106)	-	(367 0
Buildings	397 783 446	1 266 439	132 000	(2 975 749)	-	-	-	(3 502 022)	(15 505 139)	-	-
Infrastructure	6 308 710	594 716	108 670 120	-	-	-	4 919 115	(1 552 843)	(325 610 759)	(9 194 661)	(11 791 4
Community	145 229 546	-	20 520 747	-	-	-	8 438 518	(4 032 365)	(5 887 581)	(163 796)	273 5
Other assets	53 473 304	3 634 890	9 748 749	-	(418)	-	(13 614 791)	-	(15 464 766)	-	(9 701 4
Leased Assets	42 775	1 621 914	-	-	-	-	-	-	(538 901)	-	-
	6 541 429	7 217 959	139 438 659	(4 426 749)	(418)	(5 071 037)	94 742 842	(3 640 664)	(363 082 252)	(9 444 457)	(21 586 3

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

5. Intangible assets

	2020		2019			
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	15 364 268	(13 139 661)	2 224 607	15 191 339	(12 190 153)	3 001 186

Reconciliation of Intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software	3 001 184	172 929	(949 508)	2 224 607

Reconciliation of Intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	5 264	120 650	(2 704 729)	3 001 185

6. Heritage assets

	2020		2019			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Museums, painting and artifacts	11 670 232	-	11 670 232	11 488 232	-	11 488 232

Reconciliation of heritage assets 2020

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

6. Heritage assets (continued)

Historical monuments
Art Collections, antiquities and exhibits

Opening balance	Additions	Total
7 664 319	182 000	7 676 319
3 993 914	-	3 993 914
11 488 233	182 000	11 670 233

Reconciliation of heritage assets 2019

Historical monuments
Works of Art

Opening balance	Additions	Total
7 237 161	257 158	7 494 319
231 349	3 762 565	3 993 914
7 468 510	4 019 723	11 488 233

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

		2020	2019
7. Investments in associates			
Name of entity	Listed / Unlisted	holding 2020	holding 2019
Uthukela Water		34.00 %	34.00 %
		Carrying amount 2020	Carrying amount 2019
		217 333 222	245 306 033
The carrying amounts of associates are shown net of impairment losses.			
8. Other financial assets			
At amortised cost			
Stand debtors		277	1 646
9. Employee benefit obligations			
Calculation of actuarial gains and losses			
Actuarial (gains) losses – Obligation		9 608 477	10 765 537
10. Inventories			
Water stock		335 384	268 048
Consumable stores		13 576 534	14 173 621
		13 911 918	14 441 669
Provision for impairment of inventory		(397 615)	(401 512)
		14 514 303	14 040 157
Inventories are initially measured at cost and subsequently at the lower of cost and the net realisable value.			
Inventories to the value of R 6 117.49 (2019: R 6 117.49) scrapped during the year.			
Inventories recognised as an expense during the year		6 698 200	37 843 350
11. Receivables from exchange transactions			
Deposits (Eskom and Nedbank Building)		3 430 190	3 430 190
Sundry debtors		73 328 029	6 373 656
Input VAT on Invoices raised		212 772	71 642 223
		76 970 991	81 446 069
12. Receivables from non-exchange transactions			
Fines (Gross balance)		60 641 488	51 194 372
Less: Provision for impairment		(45 161 152)	(36 858 975)
		15 480 336	14 335 397

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
12. Receivables from non-exchange transactions (continued)		
Reconciliation of Fines		
Opening balance	51 194 372	43 305 673
Add: Fines recognised	10 323 001	8 630 900
Less: Fines received	(875 885)	(742 201)
	51 641 488	51 194 372
Reconciliation for Provision of Impairment		
Opening balance	36 858 975	30 018 453
Add: Contribution	8 302 176	6 840 522
	45 161 151	36 858 975
Receivables from non-exchange transactions impaired		
The ageing of amounts past due but not impaired is as follows:		
Opening balance	36 858 975	30 018 453
Add: Contribution for Impairment	8 297 048	6 840 522
Fines Revenue recognised in surplus comprises of:		
Traffic fines	10 320 701	8 630 900
Other fines	183 937	209 599

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
13. Consumer debtors		
Gross balances		
Rates	306 175 330	259 854 841
Electricity	166 211 715	155 872
Water	450 261 080	378 979 146
Sewerage	327 937 675	276 564 308
Refuse	181 081 858	144 545 426
Other	570 838	179 321 539
VAT and sundry services	195 488 233	129 772
	1 685 726 729	1 524 534 904
Less: Allowance for impairment		
Rates	(188 779 596)	(156 756 559)
Electricity	(52 647 779)	(53 663 387)
Water	(330 974 605)	(262 878 368)
Sewerage	(256 906 118)	(203 504 580)
Refuse	(130 204 990)	(95 151 148)
Other	(52 590 544)	(152 296 311)
VAT and sundry services	(98 699 987)	(9 651 452)
	(1 110 803 619)	(933 901 805)
Net balance		
Rates	117 395 734	103 098 282
Electricity	113 563 937	101 737 485
Water	119 286 475	116 100 777
Sewerage	71 031 557	73 059 728
Refuse	50 876	49 394 278
Other	5 980 294	27 025 228
VAT and sundry services	96 788 246	120 217 320
	574 923 111	590 633 098
Included in above is receivables from exchange transactions		
Electricity	166 211 715	155 400 872
Water	450 261 080	378 979 146
Sewerage	327 937 675	276 564 308
Refuse	181 081 858	144 545 426
Other	570 785	179 321
VAT and sundry services	195 488 233	129 868 772
	1 551 346	1 680 063
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	308 175 330	259 854 841
Total	1 685 726 676	1 524 534 904
Rates		
Current (0 -30 days)	24 786 284	19 907 431
31 - 60 days	12 041 333	182 070
61 - 90 days	10 759 545	7 480 889
91 - 120 days	9 903 773	6 952 125
121 - 365 days	558 758	10 463 588
> 365 days	240 125 639	205 868 738
	306 175 332	259 854 841

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
13. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	819 700	86 975 032
31 - 60 days	11 409 296	8 252 446
61 - 90 days	3 714 218	8 596 940
91 - 120 days	2 436 554	4 978 544
121 - 365 days	1 245 098	873 536
> 365 days	57 850	724 375
	166 211 716	155 400 873
Water		
Current (0 -30 days)	077	27 845 448
31 - 60 days	11 687 792	8 748 026
61 - 90 days	8 815 735	201 044
91 - 120 days	8 637 723	8 513 716
121 - 365 days	8 880 252	659
> 365 days	382 411 502	317 010 946
	450 081	378 979 146
Sewerage		
Current (0 -30 days)	8 153 870	8 022 233
31 - 60 days	6 993 749	6 305 275
61 - 90 days	6 026 606	047 083
91 - 120 days	5 867 407	786 176
121 - 365 days	5 580 418	5 736 478
> 365 days	295 315 625	244 667 063
	117 937 055	276 554 308
Refuse		
Current (0 -30 days)	6 777 848	5 764 856
31 - 60 days	5 296 867	4 470 015
61 - 90 days	4 604 663	4 226 727
91 - 120 days	4 423 189	3 999 560
121 - 365 days	4 241 198	274 789
> 365 days	155 738 093	121 809 479
	181 081 858	144 545 016
VAT and Sundries		
Current (0 -30 days)	(54 814 003)	1 455 772
31 - 60 days	6 360	605 633
61 - 90 days	3 470 525	4 742 924
91 - 120 days	9 467 111	4 106 424
121 - 365 days	3 110 164	4 779 766
> 365 days	228 207 499	110 178 252
	195 488 011	111 868 771
Other (specify)		
Current (0 -30 days)	401 964	(30 602 760)
31 - 60 days	730 584	9 916 260
61 - 90 days	630 000	7 533 398
91 - 120 days	704 311	1 459 166
121 - 365 days	111 000	10 755 590
> 365 days	55 293 816	180 259 885
	570 111	179 321 011

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
13. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	63 657 412	25 594 569
31 - 60 days	706 212	32 664 772
61 - 90 days	29 471 713	29 859 961
91 - 120 days	28 826 514	27 300 548
121 - 365 days	28 478	26 765
> 365 days	1 261 260 937	1 085 957 799
	<u>1 447 977 266</u>	<u>1 228 376 414</u>
Less: Allowance for impairment	(1 002 221 150)	(835 417 319)
	<u>445 756 116</u>	<u>392 959 095</u>
Industrial/ commercial		
Current (0 -30 days)	43 763 209	89 172 170
31 - 60 days	15 728 045	12 063 401
61 - 90 days	7 248 493	13 281 880
91 - 120 days	5 812 122	7 746 534
121 - 365 days	3 854 934	13 339 801
> 365 days	130 808 808	101 146 374
	<u>207 215 611</u>	<u>236 750 160</u>
Less: Allowance for impairment	(108 582 468)	(98 485)
	<u>98 633 143</u>	<u>138 265 175</u>
National and provincial government		
Current (0 -30 days)	(2 300 429)	4 726 816
31 - 60 days	1 771 724	751 552
61 - 90 days	1 301 346	3 687 163
91 - 120 days	6 010	748
121 - 365 days	516 378	14 205 147
> 365 days	22 442 826	29 289 023
	<u>22 930 729</u>	<u>35 350 411</u>
Total		
Current (0 -30 days)	106 120 191	119 493 555
31 - 60 days	54 205 981	51 479 725
61 - 90 days	38 021 552	46 829 004
91 - 120 days	41 440 646	35 795 711
121 - 365 days	32 425 790	54 543 713
> 365 days	1 414 512 571	1 216 393 195
	<u>1 685 726 731</u>	<u>1 524 534 903</u>
Less: Allowance for impairment	(1 110 803 619)	(933 901 804)
	<u>574 923 112</u>	<u>590 633 099</u>
Less: Allowance for impairment		
Current (0 -30 days)	(2 332 673)	(4 029 339)
31 - 60 days	(3 347 812)	(10 291 873)
61 - 90 days	(4 739 279)	(8 681 010)
91 - 120 days	(5 801 183)	(15 578 643)
121 - 365 days	(7 085 914)	(12 405 450)
> 365 days	(1 087 496 757)	(882 915 489)
	<u>(1 110 803 618)</u>	<u>(933 901 804)</u>
Total debtor past due but not impaired		
Current (0 -30 days)	2 332 673	4 029 339
31 - 60 days	3 347 812	10 291 873
61 - 90 days	4 739 279	8 681 010
91 - 120 days	5 801 183	15 578 643

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
13. Consumer debtors (continued)		
121 - 365 days	7 085 914	12 405 450
> 365 days	1 087 496 951	882 915 489
	1 110 803 812	933 901 804
Reconciliation of allowance for impairment		
Balance at beginning of the year	(933 901 804)	(843 762 714)
Contributions to allowance	(176 901 815)	(90 139 090)
	(1 110 803 619)	(933 901 804)

Receivable from consumer debtors

Receivables are amounts owing by consumers, and are presented in net impairment losses. The municipality has the credit control policy in place, and the exposure to credit risk is monitored on a ongoing basis. The municipality is compelled in terms of the constitutional mandate to provide all its residence with basic minimum services, without recourse to an assessment of credit worthiness. The municipality strategy for managing its risk includes encouraging residence to pay for services, through an outreach programme, incentives schemes and to install water demand management devices that control water flow to households, as well as prepaid electricity meters for those consumers who struggle to pay for services. A deposit is also required for new service connections, serves as guarantee.

Fines are followed up by issue of summons. Traffic fines can be contested in court and this can lead to a review amount of the fine.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
14. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	14 785	274
Bank balances	691 584	4 688 340
Short-term investments	35 562 129	5 036 373
	36 268 498	■ 999 201

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating, and with specific guidelines set in accordance with council's approved investment policy. Consequently, the municipality does not consider that there will be any significant exposure to credit risk.

The municipality has the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Nedbank - 1162667338	(2 892 139)	3 967 639	-	37 405 819
Nedbank - 1162660066	-	720 702	-	9 612 485
Total	(2 892 139)	■ 688 341	-	37 405 819

Call Investments

Standard Bank - 68450354/015	1 089 090	1 028 807
Standard Bank - 68450354/016	28 701 727	811 948
Standard Bank - 68450354/035	43 254	41 086
Standard Bank - 68450354/036	598 081	446 926
Standard Bank - 68450354/037	422 224	387 724
Standard Bank - 68450354/038	60 264	57 158
Standard Bank - 68450354/039	78 434	76 423
Standard Bank - 68450354/040	5 553 011	1 251 398
ABSA - 9288456248	64 952	■ 729
ABSA - 9300506428	529 582	500 843
Nedbank - 037648555441 46	113	107
Nedbank - 037648555441 47	113	107
Nedbank - 037648555441 ■■	113	107
Nedbank - 037648555441 ■■	113	107
Nedbank - 037648555441 51	-	367 ■■
Nedbank - 037648555441 52	965 440	-
Nedbank - 037648555441 53	47	-
Nedbank - 037648555441 54	■ 309	-
	38 ■ 867	5 036 374

Interest Income

Interest on primary account	362 601	1 575 047
Interest on investment accounts	556 617	3 315 246
	919 218	4 890 293

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
15. Finance lease obligation		
Minimum lease payments due		
- within one year	392 517	852 924
- in second to fifth year inclusive	135 823	392 517
Present value of minimum lease payments	528 340	1 245 441
Present value of minimum lease payments due		
- within one year	392 517	852 924
- in second to fifth year inclusive	135 823	392 517
	528 340	1 245 441
Non-current liabilities	135 823	392 517
Current liabilities	392 517	852 924
	528 340	1 245 441
16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Sport and Recreation	1 980 418	1 980 418
Ingogo Fresh Produce	11 353	11 353
Municipal Water Infrastructure Grant	17 196 148	3 276 300
Title Deeds Restoration Grant	7 233 371	8 072 072
Grant Skills Development	905 456	909 541
Cleanest town	975	823 975
Environmental Management Framework	502 871	502 871
Electrification Grant	267 094	-
Expanded Public Works Programme	6 738	-
Masification	-	2 772 038
Osizweni Art Centre	36 920	36 920
Sports Maintenance Facilities Grant	10 220	40 820
All Housing Grant	4 266 813	4 266 813
Newcastle Airport	1 815 281	1 815 281
Capacity Building housing	-	4 706 013
Fort Amiel Museum	381 454	370 454
Community Library Service Grant	1 343 706	1 343 706
Corridor Development	131 075	131 075
Carnegie Art Gallery	378 121	198 871
Provincialisation - Libraries	2 458 316	2 180 752
	45 741 330	33 245 273
Movement during 2020 year		
17. Financial liabilities		
At amortised cost		
DBSA loans	144 426 194	157 725 321
ABSA Bank loans	256 222 714	268 678 454
	400 648 908	426 403 775
	400 648 908	426 403 775
Non-current liabilities		
At amortised cost	388 901 682	400 805 603

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
17. Financial liabilities (continued)		
Current liabilities		
At amortised cost	11 747 226	25 598 172

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
18. Defined benefit plan		
Reconciliation of defined benefit plan - 2020		
	Opening Balance	Current Service Cost
Employee benefits	157 022 987	7 378 697
	Benefits Paid	Actuarial (Gain)/Loss
	(8 667 535)	(9 608 477)
	Interest Cost	Total
	13 983 330	160 109 002
Reconciliation of defined benefit plan - 2019		
	Opening Balance	Current Service Cost
Employee benefits	153 204 815	8 131 688
	Benefits Paid	Actuarial (Gain)/Loss
	(7 997 613)	(10 765 537)
	Interest Cost	Total
	14 449 634	157 022 987
Non-current liabilities	150 357 002	148 356 252
Current liabilities	9 752 000	8 667 735
	160 109 002	157 022 987
Health Care Benefits		
Balance at the Beginning of the year	126 567 756	126 567 891
Current Service Cost	4 467 891	5 540 884
Benefits Paid	(5 137 186)	(4 214 110)
Actuarial Loss/(Gain)	(10 013 982)	(13 026 852)
Interest	11 636 521	12 197 943
	127 521 000	126 567 756
Net Expenses Recognised In Statement of Financial Performance PEMA		
Current Service Cost	4 467 891	5 540 884
Benefits Paid	(5 137 186)	(4 214 110)
Actuarial Loss/(Gain)	(10 013 982)	(13 026 852)
Interest	11 636 521	12 197 943
	244	497 885
Long Service Bonus Awards		
Balance at the Beginning of the year	30 455 229	27 134 922
Current Service Cost	2 910 806	2 590 804
Benefits Paid	(3 530 349)	(3 783 503)
Actuarial Loss/(Gain)	405 505	2 261 315
Interest	2 346 809	2 251 691
	32 627 000	30 455 229
Net expenses recognised in Statement of Financial Performance LSA		
Current Service Cost	2 910 806	2 590 804
Benefits Paid	(3 530 349)	(3 783 503)
Actuarial Loss/(Gain)	405 505	2 261 315
Interest	2 346 809	2 251 691
	2 132 771	320 307

Employee benefit cost provision: Assumption

The Municipality offers in-service members and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme. The most recent actuarial valuations of the present value of the unfunded defined obligation were carried out as at 30 June 2020 by Arch Actuarial Consulting, a member of the Actuarial Society of South Africa (ASSA). The present value of the defined obligation, and related current service costs and past service costs were measured using the projected units credit method. No other post retirement medical benefits are provided by the municipality.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
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18. Defined benefit plan (continued)

It was assumed that the municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

Key financial assumptions used

Discount rate	10.34%
Health care cost inflation rate	6.41%
Net-of-health-care-cost-inflation discount rate	3.69%
Maximum subsidy inflation rate	4.43%
Net of maximum subsidy inflation discount rate	5.66%
Unfunded Accrued Liability	R127 521 000

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
18. Defined benefit plan (continued)		
Current-service and interest cost		
Year ended 30 June 2019	R4 467 891	
Interest cost	R11 636 521	
Actuarial (Gain)/Loss recognised in surplus/deficit	(R10 013 982)	
Long service Bonus Awards		
The long service bonus award is a function of accumulated leave days that is converted into cash in the year an employee attains the service eligible for an award at a rate of 1/250th of annual salary per day.		
Key financial assumptions used		
Discount rate	7.42%	
General earnings inflation rate (long term)	4.00%	
Net effective discount rate	3.29%	
The earnings used in the valuation include an increase on 01 July 2020 of 6.25% as per SALGBC circular number 02/2020. The next general earnings increase was assumed to take place on 1 July 2021.		
Key Demographic Assumptions used (PEMA)		
Average retirement age	62	
Continuation of membership at retirement	75%	
Proportion with the spouse dependant at retirement	60%	
Mortality during employment	SA 85-90	
Mortality post employment	PA(90) -1with a 1% mortality improvement p.a.from 2010	
Withdrawal from services (Sample annual rate)	Age	Rate-Female RateMale
	20	9% 9%
	25	8% 8%
	30	6% 6%
	35	5% 5%
	40	5% 5%
	45	4% 4%
	50	3% 3%
	55+	0% 0%
Key Demographic Assumptions used (LSA)		
Average retirement age	62	
Mortality during employment	SA 85-90	
Withdrawal from services (Sample annual rate)	Age	Rate-Female RateMale
	20	9% 9%
	30	6% 6%
	40	5% 5%
	50	3% 3%
	55	0% 0%
Unfunded Accrued Liability		
Total value of liabilities	R32 000 000	
Value of assets	R0	
Unfunded Accrued liabilities	R32 588 000	
Current service and interest cost		
Current cost	R2 910 806	
Interest cost	R2 346 809	
Comparative Vital Statistics		
Number of eligible employees	1374	
Average annual salary	R269 855	
Salary-weighted average age	44.6	
Salary-weighted average past service	12.2	

Social benefits provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
18. Defined benefit plan (continued)		
An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, ■ addressed in paragraph .61.		
The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.		
19. Provision for rehabilitation of landfill site		
The movement in the provision is reconciled as follows		
Balance at the beginning of the year	28 843 ■■	31 292 755
(Decrease)/Increase in provision	19 494 107	(5 071 037)
Finance Charges recognised	3 768 821	2 ■■ 172
	52 106 817	■ 843 890
20. Payables from exchange transactions		
Trade payables	532 187 054	439 274 543
Retentions	44 ■■ 957	34 551 748
Output VAT ■■ levies	127 166 521	126 440 810
Stale cheques written back	(60 707)	743 585
Leave pay provision	27 789 083	23 679 636
Bonus provision	11 920 291	11 992 398
Other payables	84 072 281	90 675 531
	827 413 480	727 358 251
21. VAT payable		
Tax payables	7 961 ■■	9 783 001
VAT is accounted for on a payment basis.		
22. Consumer deposits		
Consumers - Electricity	24 816 167	23 249 313
Consumer Guarantees	(292 280)	(137 260)
Housing Deposits	415 431	385 222
	■ ■ 318	■ 497 275
Guarantees to the value of R ■ 682 300.00		
23. Revenue		
Service charges	948 732 668	996 977 844
Rental of facilities and equipment	7 794 524	11 789 886
Fee income	10 113 462	12 657 242
Interest received	8 517 417	12 907 ■■
Property rates	319 656 446	287 110 172
Government grants & subsidies	560 539 037	509 802 892
Public contributions and donations	15 589 293	-
Fines, Penalties and Forfeits	10 506 938	■ 840 500
	1 881 ■■ 785	1 840 085 619
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	948 732 668	996 977 844
Rental of facilities and equipment	7 794 524	11 789 886
Fee income	10 113 462	12 657 242
Interest received - investment	■ 517 417	12 907 083
	975 158 071	1 034 332 055

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
23. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	319 656 446	287 110 172
Transfer revenue		
Government grants & subsidies	560 539 037	509 802 892
Public contributions and donations	15 293	-
Fines, Penalties and Forfeits	10 506	840 500
	906 291 714	805 564
24. Service charges		
Sale of electricity	578 680 835	102 967
Sale of water	178 742 408	176 688 426
Sewerage and sanitation charges	109 058 200	108 895 738
Refuse removal	82 251 225	88 290 713
	948 732	996 977 844
25. Rental of facilities and equipment		
Premises		
Municipal housing	838 049	10 689 108
Venue hire	821 815	959 039
Rental - HDF	134 660	141 739
	7 794	11 789 886
	-	-
26. Fines, Penalties and Forfeits		
Traffic Fines	10 323 001	8 630 900
Library Fines	17 468	22 037
Town Planning Penalties	34 000	89 326
Tampering Fees Penalties	119 119	71 505
Pound Fees Fines	13 350	26 731
	11 506 938	8 840 499

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
27. Other revenue		
Sundry Revenue		
Insurance Income	858	1 049 217
Legal Fees Recoverable	1 273	220 176
Proceeds on Sale of Asset	957	-
R/D Admin Fee	227 980	333 131
Other Revenue	1 892	1 234 220
	163	744
Other Income		
Sales		
Burial Plots	354 010	372 847
Copies	821	70 474
Prepaid meters	115 304	95 709
Printing	23 319	20 260
Swimming tickets	114 330	207 611
	784	901
Fee income		
Fees		
Advertising signs	793 908	1 481 545
Building plans	529 536	751 127
Business letters	930 191	779 017
Cemetery	1 204 202	1 176 960
Meter reading	236 367	367 253
Rates clearance certificate	576 323	542 982
Reconnection	2 284 336	3 111 822
Town planning	235 167	953
Other	396 153	474 036
Tender	99 583	87
	7 285 766	053 600
28. Interest received		
Interest revenue		
Bank	2 762 709	4 890 293
Arrear consumer accounts	5 753	014 550
Other Interest	728	2 240
	8 517 417	12 907 083

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
29. Property rates		
Rates received		
Residential	197 941 830	152 619 161
Commercial	167 075 735	129 463 993
State	10 485 637	6 419 610
Specialised Non-market	147 372	587 820
Vacant land	15 820	16 352 063
Agriculture	3 550 224	2 471 528
Public Benefit Organisation	708 872	-
Less: Income forgone	(76 083 044)	(20 003)
	656 446	287 110 172
Valuations		
Residential	16 937 554 787	13 331 000
Commercial	6 323 000	4 381 511 000
State	2 444 813 000	2 113 182 000
Vacant	711 031 500	485 967 200
PSP	1 687 000	1 556 820 900
Agriculture	1 461 559 000	1 416 242 000
Unratable properties	379 161 000	311 502 000
	687 071 287	23 596 479 100

Valuations on land and buildings are performed every 4 years, with an extension of 1 year, approved by MEC: Cogta. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Newcastle Municipality

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Notes to the Annual Financial Statements

	2020	2019
30. Government grants and subsidies		
Operating grants		
Equitable share	368 648 000	341 408 000
Carnegie Art Gallery	195 750	265 000
Finance management grant	1 700 000	1 700 000
Skills development grant	4 085	5 068 472
Expanded Public Works programme incentive	3 091 262	3 199 000
Disaster Relief Grant	757 000	-
Capacity Building	4 706 013	■ 823 070
Community Library Service Grant	■ 536 895	-
Municipal Water Infrastructure Grant	-	18 877 657
Energy Efficiency and Demand Side Management Grant	6 000 000	-
Provincialisation- All Libraries	5 891 541	■ 621 651
Title Deeds Restoration	838 700	1 196 ■
Sports Maintenance Facilities Grant	30 600	9 180
Fort Amiel Museum	-	6 414
Sports and Recreation	-	644 844
	394 399 846	388 ■■ 923
Capital grants		
Municipal Water Infrastructure Grant	22 787 153	38 412 497
Electrification Grant	-	■ 227 962
Neighbourhood development partnership	8 000 000	12 118 797
Municipal Infrastructure Grant	112 580 000	56 232 000
Shared Economic Infrastructure Facility Grant	-	4 941 714
IT Tirelo Bosha Project	-	1 050 000
Massification Grant	22 772 038	-
	166 139 191	120 982 970
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Unconditional grants received	368 648 000	341 408 000
Conditional grants received	191 891 037	168 394 893
	560 539 037	509 802 893
Municipal Infrastructure Grant		
Current-year receipts	112 580 000	56 232 000
Conditions met - transferred to revenue	(112 580 000)	(56 232 000)
	-	-
Financial Management Grant		
Current-year receipts	1 700 000	1 700 000
Conditions met - transferred to revenue	(1 700 000)	(1 700 000)
	-	-
Skills Development Grant		
Balance unspent ■ beginning of year	909 545	3 070 801
Current-year receipts	-	2 907 222
Conditions met - transferred to revenue	(4 085)	(5 ■■ 478)
	905 460	909 ■■
Expanded Works Programme Incentive		

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
30. Government grants and subsidies (continued)		
Current-year receipts	3 098 ■■	3 199 000
Conditions met - transferred to revenue	(3 091 262)	(3 199 000)
	6 738	-
Environmental Management Framework		
Balance unspent ■■ beginning of year	502 871	502 871
Neighbourhood Development Partnership		
Balance unspent at beginning of year	-	12 118 797
Current-year receipts	8 000 000	-
Conditions met - transferred to revenue	(8 000 000)	(12 118 797)
	-	-
Electrification Grant		
Current-year receipts	14 000 000	15 000 000
Conditions met - transferred to revenue	(7 732 906)	(15 000 000)
	6 267 094	-
Water Services Operating ■■ Masification Subsidies		
Balance unspent at beginning of year	2 772 038	11 000 000
Current-year receipts	20 000 000	-
Conditions met - transferred to revenue	(22 772 038)	(8 227 962)
	-	2 772 038
I.T - Tirelo Boshu Project		
Current-year receipts	-	1 050 ■■■
Conditions met - transferred to revenue	-	(1 050 000)
	-	-
Sports Maintenance Facilities Grant		
Balance unspent at beginning of year	40 820	-
Current-year receipts	-	50 000
Conditions met - transferred to revenue	(30 600)	(9 180)
	10 220	40 820
Title Deeds Restoration		
Balance unspent at beginning of year	8 072 071	-
Current-year receipts	-	5 192 726
Conditions met - transferred to revenue	(838 700)	(1 196 635)
Other	-	■ 075 980
	7 233 371	■ 072 071
Community Library Service Grant		
Balance unspent at beginning of year	1 343 706	7 467 928
Current-year receipts	2 160 000	12 147 000
Conditions met - transferred to revenue	(2 536 895)	(18 877 657)
Other	376 895	606 435
	1 343 706	1 ■■■ 706

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
30. Government grants and subsidies (continued)		
Municipal Water Infrastructure Grant		
Balance unspent at beginning of year	3 276 300	-
Current-year receipts	40 000 000	40 000 000
Conditions met - transferred to revenue	(22 787 153)	(38 412 497)
Adjustment	(3 293 000)	1 688 797
	17 196 147	276 300
Disaster Relief Grant		
Current-year receipts	757 000	-
Conditions met - transferred to revenue	(757 000)	-
	-	-
Provincialisation- All Libraries		
Balance unspent at beginning of year	2 180 751	174 837
Current-year receipts	6 000 000	6 234 000
Conditions met - transferred to revenue	(5 891 541)	(9 621 651)
Other	(376 895)	(606 435)
	2 458 315	180 837
Capacity Building housing		
Balance unspent at beginning of year	4 706 013	8 414 666
Current-year receipts	-	7 190 396
Conditions met - transferred to revenue	(4 706 013)	(6 823 070)
Other	-	(4 075 979)
	-	4 706 013
Osizweni arts centre		
Balance unspent at beginning of year	36 920	36 920
Corridor development		
Balance unspent at beginning of year	131 075	131 075
Cleanest town		
Balance unspent at beginning of year	823 975	823 975
Newcastle Library Internet Project		
Sport and Recreation		
Balance unspent at beginning of year	1 980 417	8 761
Current-year receipts	-	666 500
Conditions met - transferred to revenue	-	(644 844)
Other	-	(50 000)
	1 980 417	1 980 417
Ingogo Fresh Produce		
Balance unspent at beginning of year	11 353	11 353

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
Government grants and subsidies (continued)		
Carnegie Art Gallery		
Balance unspent at beginning of year	198 871	279 871
Current-year receipts	193 000	184 000
Conditions met - transferred to revenue	(13 750)	(265 000)
	378 121	198 871
Fort Amiel Museum		
Balance unspent at beginning of year	370 454	192 868
Current-year receipts	193 000	184 000
Conditions met - transferred to revenue	(182 000)	(6 414)
	381 454	370 454
All Housing grants		
Balance unspent at beginning of year	4 266 913	4 266 913
Current-year receipts	76 343	29 274 136
Conditions met - transferred to revenue	(76 343)	(29 274 136)
Other	-	-
	4 266 913	4 266 913
Newcastle Airport		
Balance unspent at beginning of year	1 815 281	1 815 281
31. Public contributions and donations		
Public contributions and donations 1	15 589 293	-

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
32. Employee related costs		
Basic	333 368 379	339 942
Medical aid - company contributions	18 633 485	19 649 781
UIF	291 111	2 501 353
WCA	2 954 698	-
SDL	3 754 755	4 710 732
Bonuses paid	249 802	22 829 846
Defined contribution plans	60 209 111	59 485 635
Travel, motor car, accommodation, subsistence and other allowances	13 865 507	7 342 414
Overtime payments	38 823 943	59 374 705
Long-service awards	4 111 331	2 302 437
Transport allowance	23 237 063	24 403 380
Housing benefits and allowances	7 595 214	8 290 174
Group insurance	7 033 518	5 747 810
Bargaining council	144 618	149 739
Night work allowance	1 685 146	1 111 111
Leave pay provision	753 308	9 864 260
	553 909 140	567 840 894
Remuneration of the Municipal Manager		
Annual Remuneration	-	1 342 020
Car Allowance	-	121 581
Contributions to UIF, Medical and Pension Funds	-	169 776
Acting Allowance	167 215	86 679
	167 215	1 720 056
Remuneration of the Chief Finance Officer		
Annual Remuneration	605 440	180 292
Car Allowance	151 360	33 333
Annual Bonuses	54 181	-
Contributions to UIF, Medical and Pension Funds	110 343	14 441
Other	18 771	-
Leave paid/sold	612	-
	976 117	342 999

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
32. Employee related costs (continued)		
Remuneration of Executive Directors & Municipal Manager		
Annual Remuneration	5 079	5 368 260
Car Allowance	801 350	618 002
Annual Bonuses	488 115	133 695
Contributions to UIF, Medical and Pension Funds	707 371	701 775
Acting Allowances	167 215	252 633
Leave paid/en-cashed	36 612	285 313
Other	71 570	-
	7 351 832	7 351 832
Community Services		
Annual Remuneration	798 637	798 641
Car Allowance	199 660	199 660
Annual Bonuses	145 207	-
Contributions to UIF, Medical and Pension Funds	132 199	141 511
Other	10 795	-
	1 286 508	1 140 812
Development and Planning Services		
Annual Remuneration	778 901	280 250
Car Allowance	165 000	45 000
Annual Bonuses	141 618	170 913
Contributions to UIF, Medical and Pension Funds	188 238	79 644
Other	10 371	-
Acting Allowance	-	51 021
	1 284 128	626 828
Internal Audit		
Annual Remuneration	907 312	916 300
Car Allowance	86 856	27 424
Annual Bonuses	74 937	76 358
Contributions to UIF, Medical and Pension Funds	164 952	177 301
Leave paid/leave en-cashed	-	114 400
Other	9 781	-
	1 243 838	1 311 783
Technical		
Annual Remuneration	1 195 412	1 155 678
Car Allowance	-	17 234
Contributions to UIF, Medical and Pension Funds	1 111	13 111
Other	12 057	-
	1 209 105	1 186 537
Corporate Services		

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
32. Employee related costs (continued)		
Annual Remuneration	793 897	695 079
Car Allowance	198 474	173 770
Annual Bonuses	72 172	57 337
Contributions to UIF, Medical and Pension Funds	110 003	105 027
Other	9 795	-
	1 184 241	1 031 213
33. Remuneration of councillors		
Mayor	831 630	904 319
Deputy Mayor	585 581	681 584
Executive Committee Members	4 439 662	4 612 963
Speaker	563 230	664 238
Councillors	18 503 031	16 156 871
Chief Whip	639 280	723 596
MPAC Chairperson	333 883	689 600
Traditional Leaders	39 592	48 480
	25 332 879	24 881 641
Mayor		
Annual Remuneration	513 333	602 533
Car Allowances	197 515	210 579
Cellphone allowances	37 400	40 800
Contribution to UIF, medical aid and pension	-	28 000
Other	83 382	22 000
	831 630	904 319
Deputy Mayor		
Annual Remuneration	314 000	392 969
Car Allowances	129 067	150 638
Cellphone Allowances	30 600	35 755
Contribution to UIF, medical aid and pension	50 505	58 945
Other	39 000	43 277
	585 581	681 584
Speaker		
Annual Remuneration	336 314	392 000
Car Allowances	130 344	150 638
Cellphone allowances	30 600	35 755
Contribution to UIF, medical aid and pension	51 004	58 937
Other	14 968	9 939
	563 230	664 238
Chief Whip		
Annual Remuneration	385 360	420 393
Car Allowances	147 722	161 151
Cellphone Allowance	37 400	40 800
Contribution to UIF, Medical aid and pension	57 804	63 059
Other	10 994	38 193
	728 280	723 596

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
33. Remuneration of councillors (continued)		
In-kind benefits		
The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
Also, Chief Whip and MPAC Chairperson are provided with offices.		
The Executive Mayor is entitled to stay in the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.		
34. Depreciation and amortisation		
Property, plant and equipment	345 298 647	373 173 572
35. Impairment of assets		
Impairments		
Fines	8 302 176	6 841 195
Inventory	10 821	6 117
Property, plant and equipment	14 528 962	358 457
	841 959	16 205 788
The main classes of assets affected by impairment losses are:		
Fines debtors, Inventory, and Infrastructure asset and community asset.		
Impairment of outstanding traffic fines debtors calculated as the average of uncollected fines.		
Inventories which are impaired are goods which are damaged and obsolete.		
Refer to note No: 1.11		
The main events and circumstances that led to the recognition of these impairment losses are as follows:		
Property, plant and equipment was mainly affected by roads under construction which had its materials damaged and some street lights were also damaged. Further, certain play parks were vandalised which resulted in impairment.		
36. Finance costs		
Non-current borrowings	44 886 092	42 340 887
Provisions and current borrowings	18 210 969	17 538 994
Interest Expense	7 205 170	19 897 000
	70 302 231	79 777 180
37. Debt impairment and Bad debts written off		
Debt impairment	176 901 815	90 139 090
Indebtedness written off	33 566 637	72 072 090
Bad debts written off - Incentives	19 505 000	408 033
Write-offs as per council resolution	85 047 232	11 128 216
	315 020 682	179 747 429
38. Bulk purchases		
Electricity - Eskom	404 371 472	423 037 391
Water	111 055 835	111 000 881
	515 427 307	521 388 272

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
39. Contracted services		
Legal Fees	15 169 045	8 000 086
Security Services	31 191 696	27 898 873
Consultants and Professional Services	48 053 508	24 813 034
Contractors	53 962 939	57 902 196
	148 377 188	119 003 179
40. General expenses		
Assessment rates & municipal charges	1 000 026	5 000 044
Auditors remuneration	4 421 922	4 393 123
Bank charges	3 000 819	1 911 992
Legal fees	000 324	56 990
Entertainment	33 957	000 598
Insurance	000 796 863	6 929 841
Community development and training	5 892 155	000 756 372
IT expenses	14 324 580	11 608 150
Magazines, books and periodicals	21 672	278 375
Medical expenses	26 169	43 113
Motor vehicle expenses	16 575 953	19 763 867
Expenditure on Grants	-	(1 875)
Subsistence and Travelling	1 252 356	2 358 299
Petrol, Oil and Grease	410 141	584 278
Postage and courier	3 244 375	3 867 039
Printing and stationery	1 438 656	000 733 515
Promotions	32 055	22 234
Protective clothing	2 943 872	4 676 547
Repairs and maintenance	85 639 984	81 094 572
Royalties and license fees	160 738	159 374
Membership fees	1 238 735	10 554 003
Telephone and fax	10 561 262	11 465 145
Training	3 757 482	000 413 545
Refuse	3 500 228	4 730 462
Tools	55 966	72 752
Other expenses	13 141 314	27 836 160
Administration expenses	000 474 230	37 471 316
Contribution to post retirement benefits	7 378 697	8 131 688
Material	2 618 425	6 185 201
Signage	29 843	-
Chemicals	259 118	294 012
	226 201 917	266 338 732
41. Fair value adjustment to investment property		
Gains or losses arising from a change in fair value less point of sale costs	-	15 370 000
42. Auditors' remuneration		
Fees	4 105 349	4 044 245
Audit Committee	316 573	348 878
	4 421 922	4 393 123

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Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
43. Cash generated from operations		
Deficit	(355 962 614)	(314 202 151)
Adjustments for:		
Depreciation and amortisation	345 647	373 173 572
Share of deficit in associate	27 972 811	35 071 678
Impairment/Gain of investment	-	(3 382 489)
Fair value adjustment	-	(15 370 000)
Assets Donation	(15 589 293)	-
Gain ■ Actuarial Valuation	(9 608 477)	(10 765 537)
Other non-cash items	-	(32 573)
Impairment of assets	22 841 959	16 205 077
Debt impairment	176 901 814	179 747 429
Profit ■ sale of assets	(5 552 913)	-
Movements in defined benefits	3 086 015	-
Movements in provision (Landfill site)	23 928	-
Movements in impairment provisions	-	(5 071 037)
Movement in leave on bonus provisions	4 693 531	-
Government grants non-cash	-	(19 757 803)
Changes in working capital:		
Inventories	529 751	(1 578 007)
Receivables from exchange transactions	4 475 078	(16 595 725)
Consumer debtors	(161 191 772)	(197 183 295)
Other receivables from non-exchange transactions	(9 447 116)	(1 048 178)
Other financial assets	1 369	1 975
Other financial assets	-	3 988 524
Other financial liabilities	-	(3 885 809)
Payables from exchange transactions	100 055 230	114 604
VAT	(2 091 315)	8 007 396
Finance lease obligation	(460 407)	619 413
Unspent conditional grants and receipts	12 310 057	(22 877 542)
Consumer deposits	1 442 043	4 530 751
Other financial liability	(13 850 946)	(31 292 733)
Short term portion of defined benefit	-	670 122
	149 116 380	93 662 662

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
44. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
▪ Infrastructure Assets	58 978 157	79 670 185
▪ Community Assets	193 284	2 233 882
▪ Other	6 504 771	-
	675 517	904 067
Not yet contracted for and authorised by accounting officer		
• Infrastructure Assets	143 367 436	120 559 336
Total capital commitments		
Already contracted for but not provided for	675 517	904 067
Not yet contracted for and authorised by accounting officer	143 367 436	120 559 336
	209 042 953	202 463 403
Total commitments		
Total commitments		
Authorised capital expenditure	209 042 953	202 463 403
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1 666 398	2 246 574
- in second to fifth year inclusive	1 110 932	10 225 111
	2 777 330	12 471 685

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of three years. No contingent rent is payable.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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45. Contingencies

Plaintiff: Sigatha Africa Joint Venture

Singatha Africa Joint Venture is seeking damages of R815 475 for loss of profit relating to a dispute of breach of contract. the claim that they engaged a Project Manager of housing project but the contract was cancelled. Estimated legal costs R300 000. Awaiting trial date.

Plaintiff: Evnic ADZ Construction CC

There is litigation process against the municipality relating to the dispute with ADZ Construction CC, who is seeking damages of R1 245 491 for breach of contract. It alleges that the contract was unlawfully terminated. Estimated legal costs are R250 000. Litigation to proceed.

Plaintiff: Matilda Plumbing Projects CC

There is litigation process against the municipality relating to the dispute with Matilda Plumbing and Projects CC. The estimated claim amounts to R200 000 and the estimated legal costs are R300 000.

Plaintiff: SJ Zulu

There is litigation process against the municipality relating to the dispute SJ Zulu. SJ Zulu has lodge an application to cease excavation and construction of sewerage pumpstation project initiated by the municipality. The case is in High court and the estimated cost is R20 million and R400 000 of legal costs.

Plaintiff: Rusha/Dylan Peterson

There is a litigation process against the municipality relating to a dispute with Rush Peterson where has allegations that the municipality negligent, leaving the drainage water pipes open in a public place that was accessible to children. Her child injured. The case now is in her son's name Dylan he is now over 18 years. The claim for damages now is R2 800 000. Estimated Legal costs is R 5 000.

Plaintiff: Sibiya (Ingogo Fresh Produced)

There is a litigation process against the municipality relating to a dispute with Mr Sibiya whereas there was an agreement between the municipality and Mr Sibiya to pay the rental of R1500 per month on the portion of land belonging to Mr Sibiya now demands R30 000 instead of R1500. EXCO authorised that matter be handled by COGTA.

Plaintiff: Sagewise 1018 cc v. Pullin Taxi City

The NMPT previous set aside the restrictive condition which was successful on internal appeal. The applicant did not participate in the internal appeal. The estimated costs are R650 000.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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Contingencies (continued)

Plaintiff: Minister of Water Affairs

The Minister of Water Affairs is suing the municipality for services of water rendered for the period April 2002 to 31 August 2016. An arrangement has been made to pay this in instalments of 3 years. Amount sued for is R35 906 412.22 and estimated legal costs are R380 000

Plaintiff: Small Enterprise Finance Agency SOC Ltd

Summons were issued against the municipality for R 1 100 000 and estimated legal costs of R350 000.

Plaintiff: Bigen Service frica PTY(LTD)

The former service provider objected to the municipality appointing another service provider to take over the debt management service. Legal costs of R250 000.

Plaintiff: Miracle Mile Investments

This is a collection matter for outstanding money wherein fraud was perpetrated. The monies outstanding with interest will be in the region of R 1 100 000 . Legal costs of R90 000.

Plaintiff: New Integrated Credit Solutions (NICS)

Dispute regarding the non payment of service provider. Legal costs of R1 200 000.

Plaintiff: Scarlet Hibus investments 220 (PTY) LTD

The municipality has been sued an estimated amount of R 42 000 000. Legal costs R 1 500 000

Plaintiff: Nomsa Communal Property Association & 2 Others

The municipality is being for used for an estimated amount of R 1 100 000, Legal costs R420 000

Plaintiff: Tactical Security Services cc

The Municipality is being sued for R15 000 000, estimated legal costs R 300 000.

Plaintiff: Dr HPF Adendorff

The municipality was cited and costs sought against it in an eviction matter involving farm dwellers, municipality being sued for R 150 000, estimated legal costs of R50 000.

Plaintiff: Simphiwe Nkosi

The municipality was cited and costs sought against on an urgent basis for removing a councillor. The interdict was unsuccessful and no relief was granted against the municipality. The claim amount is R 400 000 and estimated legal costs R 250 000.

Plaintiff: HG Khumalo

The municipality is being sued for an amount of R250 000 for failure to ensure proper storm water reticulation, estimated legal costs R50 000

Plaintiff: Chapps Construction CC

The municipality is being sued for R 2 700 000, estimated legal costs R 500 000

Plaintiff: Zanele Khumalo

The municipality is being sued for R 400 000, estimated legal costs R 120 000

SAMWU obo Members v SAPS

The municipality instituted an urgent interdict proceedings against SAMWU and its members for an unlawful strike action. The estimated legal costs R250 000.

Farm Dwellers NN

The municipality cited and costs sought against it in urgent interdict proceedings for failing to interdict a property developer from continuing construction of service station.

ZEST FAMILY TRUST

An Illegal structure was erected on portion 1 of ERF 10805 encroaching on ERF 10807 situated at Huttenheights, estimated legal costs R 250 000.

Insurance Claim from Third Parties Public Liability

Alistair Kevin van Wyk for Personal Injuries. Sued amount R6 000 000 and estimated legal costs R5 000.

Diaan and AJ Von Broembsen for property damage due to rain storm. Sued amount is R220 580 and estimated legal fees is R5 000.

Olivia Sizani Nzimande for Motor Vehicle claim. Sued amount R109 550 and estimated legal costs R5 000.

Vusi Mahlangu for Vehicle damage claim. Sued amount R140 835 and legal costs R5 000.

Vishal Heeralal for Personal injuries claim. Sued amount R1 050 000 and estimated legal costs R5 000.

Newcastle Municipality

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2020

2019

45. Contingencies (continued)

Nicole Adele Pillay for Motor Vehicle damage claim. Sued amount R101 327 and legal costs of R5 000.

Chemile Dlabehlezi Dladla for Personal injury. Sued amount R6 000 000 and legal costs of R5 000.

SK Made/Shories for personal injuries while attending Youth celebration. Sued amount R10 000 000 and legal costs R5 000.

Labour reviews and Bargaining Council

Ravesh Singh and 3 others, they have launched a grievance ■ non appointments on some posts. The estimated legal costs are R20 000.

LP Zwane & Others (Traffic wardens), unfair labour practice

ZB Maduna, unfair labour practice

■ Nkutha, unfair labour practice

SAMWU OBO Mpanza, unfair labour practice.

The municipality is being sued for R 20 000.00, estimated legal costs R12 000.

SAMWU OBO LP Zulu ■ Others, unfair labour practice.

The municipality is being sued for R 3 400 000, estimated legal costs R200 000.

SAMWU & IMATU obo Members, unfair labour practice.

The municipality is being sued for R 180 000 000, estimated legal costs R 350 000.

SAMWU obo D Mfusi ■ Others, unfair labour practice.

The municipality is being sued for R 180 000 000, estimated legal costs R 1 000 ■■

CZ Malembe

The municipality is being claimed against R400 000 to R600 000, estimated legal costs R 200 000

Bongani P Ngubane, unfair labour practice

Mhlaliseni James Masondo, unfair labour practice, estimated legal costs R 250 000

Fikile Lorraine Ntshingila & 17 Others, unfair labour practice, claim amount R 2 890 000, estimated legal costs R250 000

IMATU obo KS Ngema, unfair labour practice, claim amount R18 000 000, estimated legal costs R 1 000 000

Douglas B Nkosi, unfair labour practice, claim amount R1 500 000 to R2 000 000.

Contingent Asset:

Scarlet Hibus Investments owes the municipality a deposit amount of R790 175.44

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
46. Related parties		
Relationships		
Associates	Refer to note 7	
Related party balances		
Amounts included in Trade receivable (Trade Payable) regarding related parties		
UThukela Water	85 470 035	61 146
Investments in Associates		
Uthukela Water (Proprietary) Limited	(31 221 733)	(35 071 678)
Bulk Water		
Uthukela Water (Proprietary) Limited	111 055 835	95 285 645
Dr Pixley ka Isaka Seme Local Municipality	-	164 509
Related party transactions		

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

46. Related parties (continued)

Remuneration of management

Councillors

2020

Name	Basic salary	Pension Contribution	Medical Aid Contributions	Motor Vehicle Allowance	Cellphone and other Allowances	Housing Allowance	Total
Executive Committee members	3 074 778	443 644	73 942	1 351 310	457 555	455 644	5 856 873
Other Councillors	11 394 164	1 448 985	33 101	4 237 436	2 330	715 000	20 079 016
	14 468 942	1 892 629	107 043	5 588 746	2 707 885	1 170 644	25 935 889

2019

Name	Basic salary	Pension Contribution	Medical Aid Contributions	Motor Vehicle Allowance	Cellphone and other Allowances	Housing Allowance	Total
Executive Committee members	3 552 671	331 927	81 386	1 418 022	526 859	28 800	5 899 565
Other Councillors	10 111 248	1 267 373	2 849	3 595 987	2 308 488	661 840	18 282 785
	13 663 919	1 599 300	2 111	5 014 009	2 835 347	690 640	24 481 651

47. Prior period errors

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

Errors

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
47. Prior period errors (continued)		
Error 1		
Investment in Associates		
Net Asset Value for 2018/19 - Uthukela Water Restated amount	R 245 306 033	
Net Asset Value for 2018/19 - Uthukela Water Original 2019 AFS	- R 234 927	
Prior Year Error Correction	<u>R 10 378 182</u>	
Error 2		
Leave Provision		
Leave provision for 2018/19 disclosed in 2019 AFS	R 32 369 151.52	
Leave provision for 2018/19 Restated in 2020 AFS	- R 23 679 635.62	
Prior Error Correction	<u>R 8 689 515.90</u>	

Newcastle Municipality

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Notes to the Annual Financial Statements

	2020	2019
47. Prior period errors (continued)		
Error 3		
Land		
Reclassification Landfill site was removed from Land and transferred to Infrastructure	-	375 528.75
Reclassification of properties previously recorded as ■ moved to Land		17 166 000.00
Total Land		16 790 471.25
Buildings		
Depreciation correction	-	915.56
Total Buildings	-	915.56
Community		
Reclassification was done ■ Community Assets ■ the Com Assets was classified under Infrastructure	48 000 212.91	
Reclassification of Hawker Stalls moved from Infrastructure to Community	4 703 662.71	
Charlestown Library is not the asset of the Municipality and was moved to expenditure	- 17 111 429.70	
Charlestown Library Depreciation Correction	138 224.48	
Charlestown Hall Depreciation Correction	116 673.12	
Establishment of Modular Library Depreciation Correction	- 294.72	
Total Community	35 866 248.80	
Infrastructure		
Reclassification was done ■ Community Assets as CA ■ classified under Infrastructure instead of CA	- 48 000 412.91	
Landfill Site Provision Asset Portion Correction from Land to Infrastructure	375 528.79	
Hawker Stalls moved from Infrastructure to Community	- 4 704 286.54	
Boreholes Donations Correction	403 581.44	
NN East Water Supply Ext-Construction of Bulk Sewers and Pumpstation Completed in 2018/19	13 615 165.91	
NN East Water Supply Ext-Portable Water Supply in Wards line removed and components unbundled	5 563.98	
JBC Osizweni Secondary Link Road one line removed and components unbundled	- 109.60	
JBC Urban Hub Walkways and Traffic Lights one removed and components unbundled	- 695 593.53	
Madadeni Secondary Link Road Phase 1 one line removed and components unbundled	- 147 710.95	
Madadeni WWTW(Upgrade) one line removed and components unbundled	249 692.90	
Cost Correction on Brick Manufacturing Yard	100 381.20	
Correction of asset depreciation to neagative carrying values	116.93	
Depr Correction Upgrade of Ngagane WWTW Phase 1 ■ line removed and components unbundled added	179 007.11	
Depr & Cost Correction Resealing of Roads - Kilbarchan one line removed and components unbundled	- 750 133.50	
Total Infrastructure	- 39 668 208.77	
Other Assets		
Movable Assets that ■ previously not in the Assets Registers - Gains	27 270 839.68	
Total Other Assets	27 270 839.68	
TOTAL PPE	■ 258 435.41	
WIP PPE		
Newcastle East Water Supply Ext-Construction of Bulk Sewers ■ Pumpstation completed in 2018/19	- 13 692 820.00	
Newcastle East Water Supply Ext-Construction of Water Extensions Re-allocation to Expenses	- 2 165 726.87	
Newcastle East Water Supply Ext-Soul City water Ext Re-allocation to Expenses	- 867 812.91	
Madadeni WWTW (Upgrade) Additions add ■ Completed project	- 539 504.62	
Refurbishment of NN Library Re-allocation to expenses	- 978.34	
Total WIP PPE	- 17 774 942.74	
TOTAL PPE CORRECTION	■ 483 392.67	
Reclassifications		
WIP - Community	- 12 621 597.11	
WIP - Infrastructure	12 621 597.11	
IP		
Properties moved from IP to Land	- 11 407 000.00	
Properties removed that ■ not controlled by the Municipality	- 86 856 000.00	
Total IP	- 98 263 000.00	

48. Comparative figures

Certain comparative figures have been reclassified.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

2020

2019

48. Comparative figures (continued)

[Insert reasons for reclassification.]

The effects of the reclassification are as follows:

Statement of Financial Performance

	2019/20 AFS	2018/19 AFS	Diff	Comments
Fines, Penalties Forfeits	8 840 000	8 650 101	190 000	Reclassified penalties from other and revenue & Rental
Other Revenue	12 657 242	12 834 315	-177 073	Reclassified Other Revenue to Fines, Penalties and Forfeits & Rental (Previous 2018/19 split into 3, Fees, Other income & sundry)
Rental of Facilities and	11 789 000	11 803 212	-13 326	Reclassified Other Rev to Fines, Penalties & Rental
Contracted Services	119 003 189	116 099 751	2 903 438	Reclassified from General Expenses to Contracted Services
General Expenses	266 338 732	269 242 169	-2 903 438	Reclassified from General Expenses to Contracted Services
Statement of Financial Position				
Receivable from Exchange	81 446 069	81 187 338	258 731	R 157 416 reclassified to Payables R 101 315 reclassified to Debtors
Payables from Exchange	727 358 250	735 890 350	8 532 100	8 689 515 Prior year error - R 157 416 Reclassified from Receivable
Consumer Debtors from exchange	487 636 133	487 534 817	- 101 315	Reclassified from receivables from exchange
Cashflow Statement				
Suppliers	872 419 844	876 408 367	- 3 988 523	Reclassified to Purchases of Heritage Assets
Purchases of Heritage	4 019 723	31 200	3 988 523	Reclassified from Suppliers

49. Risk management

Financial risk management

Financial management risk is to determine whether the municipality's financial health is able to meet its short-term commitments or obligations.

Liquidity

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The municipality recorded the cash ratio of 4% (2019: 1%) in the current year. The entity required to maintain the cash ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities.

The municipality also recorded the current ratio of 77% (2019:85%) in the current year. The municipality is required to maintain the current ratio of 150% in order to ensure that current assets are adequate to its current liabilities.

The municipality recorded the acid test ratio of 76% (2018: 86%) in the current year. The entity required to maintain the acid test ratio of at least 100% in order to ensure that adequate funds are available to cover its current liabilities.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
49. Risk management (continued)		
Credit risk		
Credit risk is the risk of financial loss to the municipality if its customers or counterpart fail to meet their contractual obligations. Credit risk arise primarily from the municipality's investments, cash and cash equivalents and receivables. The carrying values of these financial assets represents the maximum credit exposure. The maximum exposure as at 30 June 2019 follows:		
	2020	2019
Cash and cash equivalents excluding cash on hand)	R 36 268 498	R 9 999 201
Other receivables	R 92 941 982	R 95 111 736
Receivables from consumer debtors	R 574 111	R 734 415
Total	R 704 655 243	R 696 111 352

50. Going concern

As at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 6 244 006 884 (2019: R 6 111 034 079) and that the municipality's current liabilities exceed its assets by R 210 798 039 (2019: R 118 741 060).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated deficit of R 355 million and the municipality's Cash and Cash Equivalent is R36 million which is not sufficient to cover the current liabilities of the municipality. The current assets are less than current liabilities, the collection rate has improved a little bit but there is still a risk that the outstanding debtors will be collected. Over the next twelve months, the municipality is still committed to that expenditure is kept within the funded and approved budget.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the Provincial and National government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

51. Unauthorised expenditure

Opening balance as previously reported	(918 010 182)	(918 010 182)
Opening balance restated	(918 010 182)	(918 010 182)
Add: Irregular Expenditure - prior period	-	(47 430)
Closing balance	(918 010 182)	(918 010 182)

The municipality does not have any unauthorised expenditure of R0 (2019: R 47 430) during the financial year.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
52. Fruitless and wasteful expenditure		
Opening balance as previously reported	■ 613 026	■ 974 342
Opening balance as restated	38 613 026	■ 974 342
Eskom	2 382 029	17 529 920
SARS	3 869 624	2 527 408
DBSA	115 761	■ 745
Ithala	3 874	2 180
Retentions overpayment	763 709	-
Arena Holdings	88 579	-
Impairment of Assets (Esdidini Road)	-	6 609 206
Telkom	23 136	93 105
Bytapex	19 325	1 712
Unauthorised Debit Orders	-	199 350
Natal Joint Municipal Pension Fund	-	25 198
Delca Consulting	-	765 ■
ABSA	60 747	-
Auditor General	5 412	-
Itec Finance	947	-
Dr Pixley ka Isaka Seme Local Municipality	724 315	-
Employee: Mr FL Ndlovu (Ill Health Retired)	26 893	-
Employee: Mr TP Mlangeni (Deceased)	36 685	-
Salary Overpayment	1 102 209	-
Zanele Plumbers	320 037	-
Closing balance	■ ■ 308	38 613 026

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
53. Irregular expenditure		
Opening balance ■ previously reported	370 ■ 064	283 338 197
Add: Irregular Expenditure - current year	73 842 757	86 886 867
	-	-
Closing balance	444 067 ■ 1	370 225 064

Annual Financial Statements for the year ended 30 June 2020

	2020	2019
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Irregular Expenditure was made out of the following

Blaauwbosch Bulk Water Project	-	3 008 785
Newcastle East Water Supply Extension	-	2 621 151
Newcastle East Water Supply Extension	-	104 252
Pitcon Training	-	5 734 188

Adapt It	125 728
Amadielandawonye Trading	-
Bamazi Trading Enterprise cc	19 850
Brett Purdon Attorneys	-
Buzwe Giomatics	22 000
Bangs Trading and Projects	■ 129 030
Bravolex	5 543
Bytepax IT cc	763 820
Castle Construction Hire	-
Concost Quality Surveyors	479 359
Easypay	-
EGM Izinhlelo	-
Egweni Engineering	2 860 ■
Eskom Holdings	5 700 118
FBL Trading Enterprise	1 606 251
Fidelity Security Services	192 716
First National Battery	26 893
First Technology	611 251
Flint Rail Projects	87 973
Global Payment Technologies	330 916
Hamisa Constructions	■ 220
Heavenly Breeze Air Conditioning	500 000
Ilembe Trading	31 108
Impumelelo Consulting Engineering	500 000
Inside Data South (Pty) Ltd	7 200 048
Lekotlopo Associates	-
Jenny internet	70 000
Juta and Company LTD	131 484
Itec Tivende (Pty) Ltd	-
	2 856
	6 013

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
53. Irregular expenditure (continued)		
Kinno's Marquee and Tarpaulin Hire cc	-	403 195
KFC Pipes & Fittings &KFC Engineering	-	902 840
Lemalwa Trading	15 255	-
Klus Civils	2 495 374	2 114 447
Kuntwela Ezansi Ventures	-	831 653
Kusile Engineering cc	-	694 985
Legent International and Projects	226 234	105 570
Lexis Nexis	-	3 759
LH Marthinussen Denver a division of Actom (Pty) Ltd	-	487 510
Logo Graphics cc	-	2 013
Madudla Contractors	3 146 923	1 859 685
Magubane Plant and Contractors	1 246 451	1 342 810
Mbodvula Trading/MBN Civils	1 879 018	2 745 651
Metgovis	78 218	-
Moralla Shopping Complex	960	139 237
Msalela Transport	1 562 496	971 142
Mtec	-	2 837
Ithala Properties	70 009	-
Murray and Dickson	-	12 606 571
Ncolisa Trading (Pty) Ltd	-	325 468
Newcastle Master Lock	-	1
MI 7 Security Intelligence	1 063 258	-
Ngidi and Company Inc	64	64
Njabulo Binda Trading and Projects	-	117 000
Njengamajje Trading cc	4 227 724	2 935 192
Nkosenathi Construction & Projects	-	1 182 472
Nobongile Business Enterprise	-	28 665
Northern Cleaning Services	871	7 479
Osmans Racing Wheel	-	2 196 338
Ongoti Risk Management	207	520
Paper House	-	3 152
Phaks Mankahlane	120 000	-
Roypan Enterprise	57 718	-
Phumuza Facilities Management	-	193
Rosenbauer South Africa	-	5 305
Sandman Sizazonke	-	293 288
Shantis Electrical	-	3 743 825
Shalom-Yeshurum Elektriese Kontrakteurs	-	-
S & M 2 way radio	10 000	-
Sibonisiwe Primary cooperative limited	34 911	-
Siyeza -Sisendileleni	93 104	-
	-	200

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
53. Irregular expenditure (continued)		
Sizisa Ukhanyo 471 Trading	-	872 950
Sizela Transport	-	16 677 521
Smenywa Trading Projects	-	188 700
Somkhanda Plant Hire	3 567 333	1 662 906
Snababa Trading Enterprise	-	108 000
Snakho Projects	-	157 000
SS Masondo Attorneys	200 000	573
Sukuma Security Services	-	1 478
Supreme Range General Supplier	77 269	41 330
Snyman Vunumphelo	-	32 981
Tactical Security Services	10 917 211	-
Tellumat (Pty) Ltd	-	256
The Image House	48 300	-
Tswakelo (Pty) Ltd	-	162 150
Umfazi Safety (Pty) Ltd	-	5
Uthilomkhonto	-	29 850
Veros Trueth Verification Centre	8 540	-
Wemtomnyama Trading CC	139 095	-
Zeatobrite (Pty) Ltd	-	1 817 160
Uhhiya t/a Fast Moving Trading	63 250	-
Zenawe	500 099	780 239
Zenzo Trading and Projects	-	108 770
Hlela Attorneys	111 399	-
Royal Haskoning DHV	3	-
Ravindra Maniklal and Company Inc	227 368	-
Amajuba Caters	500	-
DBM Attorneys	23 754	-
Jayshree Moodley ■ Associates	81 729	-
M-Charlie Trading	11 902 397	-
Otis (Pty) Ltd	17 334	-
TJ Mphela Demolition Masimula	103 940	-
Uphokophela Trading	500 000	-
Roda	15 853	-
Water Skills	166 221	-
Vodacom	457 800	-
Umpisi Constructions and plant hire	3 127 477	-
Zanele plumbers	36 130	-
	73	81 083 827

Awards to employees in service of the state

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
53. Irregular expenditure (continued)		
Banothile Civil Engineering	-	23 500
Dlongwane General Trading	-	18 502
Munky Trading	-	26 850
		68 852

54. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	2 833 478	-
Current year subscription / fee	6 260 655	5 839 840
Amount paid - current year	-	(3 006 362)
	9 094 133	2 833 478

Audit fees

Opening balance	479 847	12 824
Current year subscription / fee	4 105 339	4 044 245
Amount paid - current year	(3 942 295)	(3 564 398)
Amount paid - previous years	(479 847)	(12 824)
	163 044	479 847

PAYE and UIF

Opening balance	18 303 623	-
Current year subscription / fee	91 259 200	93 363 467
Amount paid - current year	(84 317 063)	(75 059 844)
Amount paid - previous years	(18 303 623)	-
	6 942 137	18 303 623

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
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54. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	10 552 223	-
Current year subscription / fee	124 847 609	126 186 459
Amount paid - current year	(115 090 602)	(115 634 236)
Amount paid - previous years	(10 552 223)	-
	9 757 007	10 552 223

VAT

VAT payable	7 961 686	9 783 001
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2020:

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Y Meiring	2 453	-	2 453
Councillor MS Mlangeni	30 894	-	30 894
Councillor MF Zikhali	5 417	-	5 417
Councillor SS Ndlangamanda	6 627	-	6 627
Councillor NNG Mahlaba	15 550	-	15 550
Councillor VP Mzima	2 192	436	2 628
	63 133	436	63 569
30 June 2019	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor MF Zikhali	734	2 799	3 533
Councillor MS Mlangeni	2 573	15 055	17 628
	3 307	17 854	21 161

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

55. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	400 648 908	426 403 775
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Newcastle Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

	2020	2019
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56. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviations

Section 16	32 422	69 781
Section 17	525 497	344 394
Section 36	3 191 710	951 690
	3 749 629	1 365 865

57. Transitional provisions

58. Water distribution losses

Input Volume (KL)	31 938 151	31 739 319
Water Losses (KL)	12 551 693	14 788 167
Water Losses (%)	39.30%	46.6%
Bulk Tariff (R/KL)	3.48	3.05
Water loss (Rands)	R43 679 892	R45 103 909

Water distribution losses comprises of the following:

Physical /Real losses

Leaking from transmission and distribution mains (leaks and burst pipes) as well as leaking on services connections up to the customers meter were noted as physical losses.

Commercial/Apparent losses

Unauthorised consumptions consisting of illegal connections, meter bypass and illegal uses of fire hydrant were noted as apparent losses, furthermore customer meters inaccuracies due to old meter and intermittent water supply were also reason for the losses. Human error from manual and capturing of data resulted in a meter reading errors, data handling and accounting errors.

59. Electricity distribution losses

Purchases (KWH)	414 578 816	534 914 635
Less: Sales	388 090 062	506 062 833
Loss of units (kwh)	26 488 754	28 851 805
Loss of units (%)	6.39%	5.39%
Estimated cost per unit - Cents	R0.78	R0.65
Estimated cost of loss in (R)	R20 661 228	R18 753 673

Newcastle Municipality

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Notes to the Annual Financial Statements

	2020	2019
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59. Electricity distribution losses (continued)

Electricity distribution losses comprised of the following:

Administrative losses

Administrative losses refers to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered. Administrative losses are minimal as the municipality ensures that the cut-offs are effected on all unpaid accounts.

Technical losses

Technical losses within the municipality are made up of standard up of standard line losses, unmetered own consumption, free basic electricity, street lighting and traffic lights. Standard line losses account for approximately 2% of the total energy delivered to the municipality. Street lighting contribute approximately 3600Kwh per annum which equates to approximately 8% (3 600 000kwh) of electricity losses.

Non-technical losses

Non-technical losses refers to unrecorded electricity delivery. Illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded.